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AT&T

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

November 19, 1992

Ms. Donna Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D. C. 20554

Re: Ex Parte Presentation
CC Docket No. 92-101

Dear Ms. Searcy:

Today, Nathaniel Friends and I representing AT&T, met with Charla Rath, Telecommunications Advisor to Chairman Alfred C. Sikes. The purpose of the meeting was to discuss AT&T's position on the price cap exogenous cost treatment of OPEB (Other Post-Employment Benefit) expense. The attached material was used in our discussion.

Two copies of this Notice are being filed with the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Sincerely,

Charles H. King

Attachment

Copy to: C. Rath

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FEDERAL COMMUNICATIONS COMMISSION
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# EXOGENOUS COST TREATMENT FOR POST-EMPLOYMENT BENEFITS (OPEB) ACCOUNTING

**Background:**

o The Financial Accounting Standards Board (FASB) issued its Statement of Financial Accounting Standards No. 106 (SFAS 106) in December 1990.

- Requires accounting for post-employment benefits other than pensions (OPEB) to change from a "pay-as-you-go" to an accrual basis by January 1993.

- Also requires amortization of the "Transition Benefit Obligation"; i.e., the difference between accrual amounts not accounted for in the past and the pay-as-you-go amounts from this same period.

o FCC Price Cap rules allow for externally imposed accounting changes to be considered for exogenous treatment on a case-by-case basis provided that:

- The change has been adopted by FASB, found by the Commission to be compatible with regulatory accounting needs, and the change has become effective

- The cost change is outside the carrier's control

- The cost change will not be reflected ("double counted") in the inflation adjustment component of the price cap index (GNP-PI); i.e., the change disproportionately affects the carrier

o FCC issued an order in December 1991 authorizing carriers to adopt SFAS 106 accounting for OPEB costs by 1/1/93.

o Several LECs have filed for exogenous cost treatment.

- Tariffs suspended and set for investigation.

- Direct cases and comments have been filed.

- Tariff suspension period ends December 2, 1992.

**IMPORTANT CONSIDERATIONS**

- o Significant access increases possible on 1/1/93.
    - OPEB
    - USF
- o Need to be conservative.
    - OPEB accrual amounts are speculative and have a high degree of variability.
    - Should focus on the economic issues underlying SFAS 106; e.g., increasing health costs for retirees.
- o Only accruals beginning 1/1/93 are appropriate for consideration for exogenous cost treatment.
    - Some OPEB-like costs are already embedded in rates for some LECs as a result of rate-of-return ratemaking (before 1/1/91).
    - It is inappropriate to include LEC accruals between the beginning of price caps and the mandatory adoption date (1/1/93), since any prior accruals were entirely at carrier's discretion.

## AT&T'S RECOMMENDATION

o Use prefunded amounts only (for exogenous cost purposes).

- Assures that amounts paid by ratepayers are used only for the intended purpose.

- Assures that LEC access prices are more closely aligned with actual dollars set aside to fund the obligation.

- Should exclude amounts already reflected in LEC price cap indexes.

o Place limitations on accrual calculations to be used (for exogenous cost purposes).

- OPEB costs are substantially within the LEC's control, accrual amounts are highly speculative, and full exogenous treatment could give an unearned windfall.

- Should use LECs' own "best in class" assumptions and parameters (capping of plan benefits, discount rate, rate of return on plan assets, health care trend rate).

o Recognize that GNP-PI "double count" is substantially larger than that assumed by the LECs.

- LEC models are flawed.

- For example, NERA model assumes most U.S. firms have already reflected SFAS 106 costs in their prices, and there is no evidence of this.

- Government component ignored.

- AT&T modified NERA approach to correct for these effects, demonstrating a much larger "double count".

**FULL LEC OPEB:**

**$294M**

**AT&T RECOMMENDATIONS**

**EXOGENOUS COSTS:**
**< $90M**